choices do global marketers have?

CASE 7-1 CONTINUED (REFER TO PAGE 208)

Segmenting the Chinese Luxury Goods Market

Diego Della Valle, chief executive of Italian luxury goods marketer Tod's, has witnessed firsthand the luxury sector's explosive growth in China. In a recent interview, Della Valle noted that China has upended traditional models of the way luxury markets evolve. In the "waterfall" or "cascade" model, a luxury brand's reputation would mature over the course of many years. The reason is simple: Elite, wealthy customers would be the first to purchase high-quality, high-end brands. The middle class would aspire to own those same brands, but only at a later time would they acquire them. In a similar manner, lower-income consumers would aspire to the luxury goods that the middle class had acquired; later, some in the lower-income tier would be able to buy select luxury brands.

Today, Della Valle notes, huge numbers of Chinese consumers are simultaneously demanding luxury goods. The challenge is to maintain an image of exclusivity in the face of exploding popularity. Tod's and other luxury goods marketers are working hard to understand the Chinese luxury consumer. One thing the marketers have discovered is that the millions of newly wealthy Chinese consumers can be divided into several segments: the super-elite, the newly rich, and government officials.

Super-Elite

The first segment, the "super-elite" or "extremely rich," consists of individuals who seized entrepreneurial opportunities in the 1980s when Beijing instituted economic reform policies and began to open China's market. A typical member of this segment is educated, influential, and well respected in Chinese society. These individuals started businesses and now, decades later, number among China's economic elite.

For example, 61-year-old Jianlin Wang has a net worth of more than $15 billion. He is chairman of the Dalian Wanda group, which is a powerful force in Chinese real estate. Mr. Wang is the richest man in China, and ranked No. 56 in *Forbes* magazine's 2014 rankings of the world's billionaires. His company currently operates dozens of shopping centers, and is developing plans for a new theme park. Yan Jiehe is another member of the super-elite; a former high school teacher, he rose to prominence by restructuring some of China's poor-performing state-owned enterprises. Pacific Construction Group, the company he founded, is China's largest privately owned construction company.

Newly Rich

The second segment, the "newly rich," consists of Chinese whose wealth, like that of the super-elite, only dates back one generation. In contrast to the super-elite, however, the newly rich typically grew up in rural areas and do not have college educations. While in their 20s, some members of this group moved to large cities seeking new opportunities. Largely self-taught, this group improved their skills by reading and immersing themselves in self-study. After joining the urban workforce, they climbed the corporate ladder and ultimately rose to leadership positions. Not as affluent as the super-elite, this segment spends selectively as well as splurges.

A variation on the newly rich were those Chinese who exhibited little desire to move to the city. Instead, they stayed in the provinces, where they exploited the local natural resources and thereby accumulated wealth on a par with the super-elite. The word *méi laobǎn* (煤老板; "coal boss" or "coal baron") was coined to describe rich mine owners from Shanxi Province, where abundant coal reserves are found.

Despite—or because of—their humble origins, members of this group sometimes engage in freewheeling spending and conspicuous consumption. The term *tuhao* is a popular way for Chinese to mock this type of consumer behavior. *Tu* literally means "dirt," but in common usage it has taken on the connotation of "vulgar" or "unrefined." *Hao*'s translation of "rich" is an extension of its original meaning as "bullying" or "despotic." In sum, *tuhao* is a pejorative term that roughly translates as "uncultured rich" and is sometimes applied to *méi laobǎn* and others with a penchant for profligate spending tied to uncouth behavior.

With these definitions in mind, imagine witnessing the following scene:

> *A Chinese couple is shopping at the New York City flagship store of French luxury goods marketer Hermès. The man is a méi lao bǎn, the woman his Xiao San (Chinese slang for the third woman in a marriage, usually a young woman seeking money from an older married man). The couple is shopping for Hermès's iconic Birkin bag, a limited-production item priced at $10,000 or more. The Xiao San has a Birkin on each arm, and can't decide which one she likes better. The méi lao bǎn says, "Buy both, buy both, it's just another truck of coal, it's nothing."*

Both types of newly rich invest heavily in their children's educations, due in large part to the fact that they themselves did not go to college. (In fact, the term "rich redneck" is sometimes applied to this segment as a put-down.) There is a sense among the newly rich that they neither command the respect nor have the influence of the super-elite. Anxious for their children to earn respect, parents in the newly rich segment aspire to send their children abroad to attend college.

The United States and the United Kingdom are favorite destinations. In the United States alone, nearly 275,000 Chinese students were enrolled in U.S. colleges and universities in 2014. That figure represents one-third of the total international student population and is triple the number of a decade ago. The University of Southern California is currently the number 1 destination for students from China. India, South Korea, Saudi Arabia, and Canada also send tens of thousands of students to the United States each year.

Government Officials

The third luxury subsegment consists of government officials, ranging from senior officials ("tigers") to petty bureaucrats ("flies"). Gift-giving is deeply embedded in 5,000 years of Chinese culture and history. Historically, there is a sales spike in demand for luxury goods each March when thousands of Communist Party delegates converge on Beijing for annual meetings. Lower-level officials seek favor with superiors by giving Hermès scarves, handbags from Louis Vuitton or Gucci, or Montblanc pens. Overall, government officials account for an estimated 50 percent of luxury goods sales. Chinese businessmen seeking government contracts, business licenses, or tax breaks also buy luxury gifts for government officials. In addition, cash gifts enable the recipients to buy Swiss watches, jewelry, designer clothes, or imported sport utility vehicles.

The result has been rampant corruption in China's bureaucracy. However, President Xi Jinping has targeted this group by cracking down on lavish spending, which has dampened demand for some luxury goods. However, although bribery is against the law in China, the law is not enforced consistently. To protect their customers, luxury goods companies are discreet. Managers at some stores keep special accounts and use code names for government officials. Sometimes a middleman, rather than the gift-giver, makes the purchase. For example, a private businessman uses his credit card to make the purchase. He then passes the gift off to a government official, who in turn gives it to the ultimate recipient. Thus, the purchase process is sometimes a two-person activity: One person, the gift-giver, selects the gift; the second person pays for it.

Shopping Behavior Varies by Segment

The extremely rich favor luxury brands that reflect the buyers' superior taste. For example, a Louis Vuitton handbag with its iconic monogram would be too commonplace. Instead, this customer would prefer a handbag from Bottega Veneta that offers renowned Italian craftsmanship but the brand is signaled more discreetly. The extremely rich consumer also shops for luxury goods abroad while on business trips or when vacationing. This segment was an early adopter of Apple's iPhone; even before Apple established stores on the mainland, the extremely rich purchased the phones in Hong Kong, the United States, and the United Kingdom.

The newly rich shopper, by contrast, is not as knowledgeable about luxury brands and does not seek out information about them. Coming from a frugal background, this shopper is aware that less-exclusive brands can be purchased for reasonable prices; however, newly rich shoppers also want a reward for years of hard work. "Practical" luxury brands such as Louis Vuitton, Gucci, and Chanel are the right choice. The exception would be the *tuhao* variant of the newly rich, who would be more status conscious and more likely to make extravagant purchases.

Government officials, the third segment, must be strategic; officials can't flaunt purchases that they can't afford on their state salaries. "Accessible luxury" brands such as Coach are the ideal purchase for this group. This segment also favors group shopping trips arranged by travel agencies. The agency takes care of transportation, accommodations, and other logistical issues; the tourists get to focus on shopping. According to the Paris Tourism Office, more than one million Chinese tourists visited Paris in 2013, where they spent more than €1 billion. Tour buses regularly stop at Galeries Lafayette and other popular destinations in the French capital. Overall, the average Chinese tourist on such trips spends $5,000.

Executives at Ford and the Lincoln Motor Company note that the Chinese market is critical for the revitalization of the Lincoln nameplate. The Lincoln Continental, out of production since 2002, was once the vehicle of choice for U.S. presidents and Hollywood stars. The latest generation of Continental was designed specifically to appeal to wealthy Chinese who can afford chauffeurs. Interior options

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Discussion Questions

7-6. Compare and contrast the various segments of Chinese luxury consumers and customers profiled in the case.

7-7. How have luxury goods brands responded to President Xi Jinping's crackdown on corruption?

7-8. Why do so many Chinese parents want their children to study at foreign universities?

7-9. Assess the prospects for success for the Lincoln Motor Company's entry in the China market.

Sources: Bill Vlasic, "Chinese Tastes and American Heritage Inspire New Continental," *The New York Times* (March 30, 2015), p. B2; Laurie Burkitt and Alyssa Abkowitz, "Corruption Crackdown a Boon for Lingerie," *The Wall Street Journal* (February 14–15, 2015), p. B4; Scott Cendrowski, "China's Baddest Billionaire Builder," *Fortune* (July 7, 2014), pp. 105–114; Joseph B. White and Mike Ramsey, "Ford's China Beachhead for Lincoln," *The Wall Street Journal* (April 18, 2014), p. B6; David Gelles, "Bringing Luxury, Fast, to China's Cities," *The New York Times* (September 11, 2014), pp. B1, B8; Amy Qin, "Yet Another Way to Mock China's Rich," *The New York Times* (October 15, 2013); Tim Higgins, "Chinese Students Major in Luxury Cars," *Bloomberg Businessweek* (December 23, 2013), pp. 23–25; David Barboza, "For Bribing Officials, Chinese Give the Best," *The New York Times* (March 14, 2009), p. A4.

CASE 7-2
Cosmetics Giants Segment the Global Cosmetics Market

The world's best-known cosmetics companies are setting their sights on a lucrative new market segment: the emerging middle classes in countries such as Brazil, Russia, India, and China. For example, the Chinese spent $10.3 billion on cosmetics and toiletries in 2005; that figure has doubled in the last few years. Not surprisingly, marketers at L'Oréal, Procter & Gamble, Shiseido, and Estée Lauder Companies are moving quickly. William Lauder, president and CEO of Estée Lauder, calls China a "$100 billion opportunity" (see Exhibit 7-14).

Noting that there is no "one-size-fits-all" ideal of beauty, cosmetics marketers pride themselves on sensitivity to local cultural preferences. As Jean-Paul Agon, chief executive of L'Oréal, explains, "We have different customers. Each customer is free to have her own